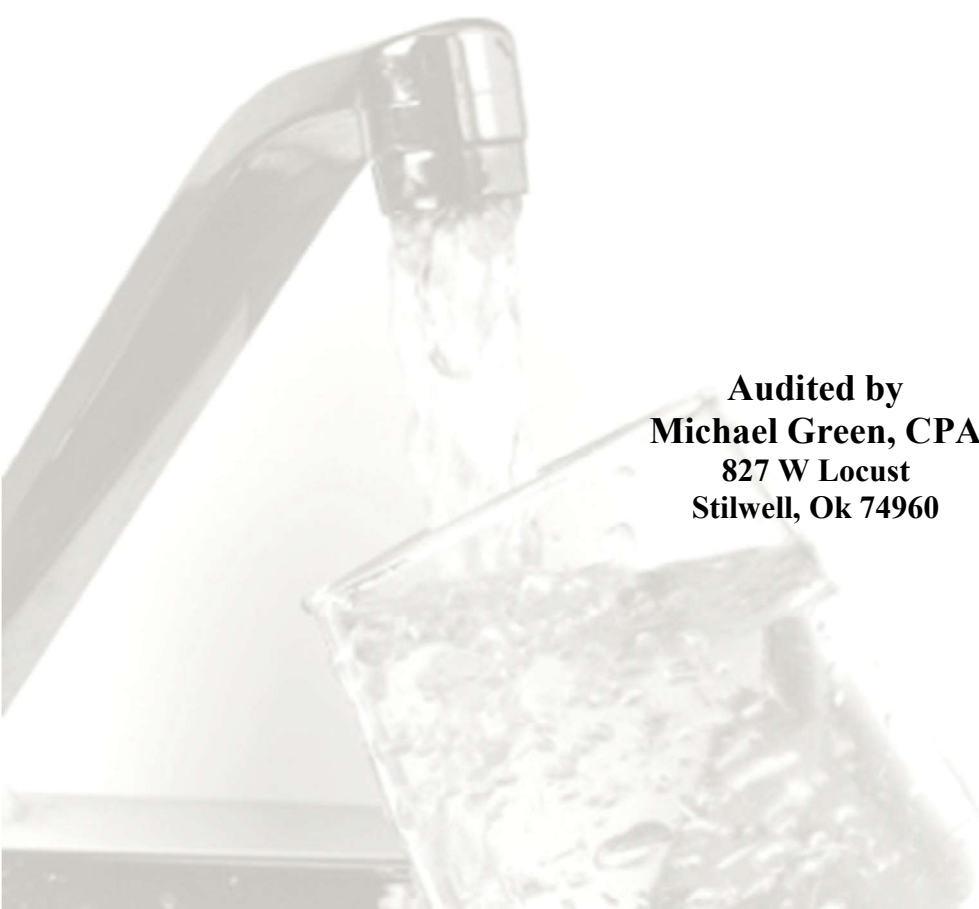


# **RURAL WATER DISTRICT # 3**

**Washington County, Oklahoma**

## **Financial Statements & Audit Report**

**December 31, 2019**



**Audited by  
Michael Green, CPA  
827 W Locust  
Stilwell, Ok 74960**

RURAL WATER DISTRICT NO. 3  
Washington County, Oklahoma

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**MICHAEL W. GREEN**  
*Certified Public Accountant*  
827 W Locust Street  
Stilwell, Ok. 74960  
(918) 696-6298

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Rural Water District No. 3  
Washington County, Oklahoma

**Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of Washington County Rural Water District No. 3 (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Washington County Rural Water District No. 3 as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8, and page 21, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated May 7, 2020, on my consideration of District's, internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's, internal control over financial reporting and compliance.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", with a stylized flourish at the end.

Michael Green, CPA  
Stilwell, Oklahoma

May 7, 2020

**Washington County Rural Water District No. 3  
Management's Discussion and Analysis Report  
For Fiscal Year 2019  
(Ended December 31, 2019)**

**Introduction**

The purpose for this report is to present, from the District Manager's perspective, an assessment of the financial activities and performance of Washington County Rural Water District No. 3 (hereinafter referred to as the "District") for the audited year. The primary goal of this report is to address the critical question "Is the District as a whole better or worse off as a result of the year's activities?" It is also the goal of this report to present the findings from the audit and other critical operations information in an easy-to-read format for interpretation by the non-accountant.

The information included herein should be read in conjunction with the financial statements prepared by the District's Auditor. Also note that the currency amounts presented herein have been rounded to the nearest dollar.

**Financial Highlights**

- The amount of water sold in FY '19 (684,664,759 gallons) decreased by approximately 5.0 percent when compared to the previous year (sold 719,486,409 gallons in FY '18).
- Revenues from the sale of water accounted for 61 percent of all revenues. The total revenue from water sales increased by approximately 3 percent when compared to FY '18.
- The District expended approximately \$95,506 on new infrastructure during the year.
- The District *did* improve its position with regard to total liabilities by *decreasing* their value by \$471,184 when compared to FY '18. Total equity *increased* by approximately \$2,689,801.
- The District as a whole is much better off as a result of the year's activities.

**Overview of Financial Statements**

The financial statements prepared for the FY '19 audit was used to develop this report. A brief description of each statement and their purpose follows:

*Statements of Financial Position [Balance Sheet]* - The purpose for the “Statements of Financial Position” is to present a summary of the District’s net assets. In simple terms this statement shows what we own (assets) minus what we owe (liabilities). When we compare this years Statement of Financial Position to previous years, we look at how our net worth (i.e., net assets) is increasing or decreasing. This is one indicator of how the District’s financial position is improving or deteriorating.

*Statements of Activities* - The “Statements of Activities” presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year without regard to when cash was received or paid.

*Statements of Cash Flows* - The “Statements of Cash Flows” presents changes in cash and cash equivalents (i.e., Accounts Payable and Receivable), resulting from operational, financing and investing activities. This statement shows how the District’s cash on hand changed from the beginning to the end of the year.

### **Condensed Financial Statements**

#### Condensed Statement of Financial Position

	<b>12/31/19</b>	<b>12/31/18</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Current and Other Assets	\$7,540,829	\$6,622,729	\$918,100	13.9%
Capital Assets	\$35,175,258	\$33,874,741	\$1,300,517	3.8%
<b>Total Assets</b>	<b>\$42,716,087</b>	<b>\$40,479,470</b>	<b>\$2,218,617</b>	<b>5.5%</b>
Current Liabilities	\$679,953	\$658,292	\$21,661	3.3%
Long-Term Liabilities	\$16,311,335	\$16,804,180	(\$492,845)	-2.9%
<b>Total Liabilities</b>	<b>\$16,991,288</b>	<b>\$17,462,472</b>	<b>(\$471,184)</b>	<b>-2.7%</b>
Net Assets invested in capital assets, net of related debt	\$18,371,310	\$16,599,089	\$1,772,221	10.7%
Restricted for debt service & capital purposes	\$802,068	\$725,213	\$76,855	10.6%
Unrestricted net assets	\$6,551,421	\$5,710,696	\$840,725	14.7%
<b>Total Net Assets</b>	<b>\$25,724,799</b>	<b>\$23,034,998</b>	<b>\$2,689,801</b>	<b>11.7%</b>

### Condensed Statement of Activities

	12/31/19	12/31/18	Dollar Change	Percent Change
Operating Revenues	\$5,568,269	\$5,292,755	\$275,514	5.2%
Non-operating Revenues	\$2,918,024	\$1,756,550	\$1,161,474	66.1%
<b>Total Revenues</b>	<b>\$8,486,293</b>	<b>\$7,049,305</b>	<b>\$1,436,988</b>	<b>20.4%</b>
Depreciation Expense	\$1,257,735	\$1,158,051	\$99,684	8.6%
Other Operating Expenses	\$4,538,757	\$4,315,940	\$222,817	5.2%
<b>Total Expenses</b>	<b>\$5,796,492</b>	<b>\$5,473,991</b>	<b>\$322,501</b>	<b>5.9%</b>
Change in Net Assets	\$2,689,801	\$1,575,314	\$1,114,487	70.7%
Beginning Net Assets	\$23,034,998	\$21,459,684	\$1,575,314	7.3%
Ending Net Assets	\$25,724,799	\$23,034,998	\$2,689,801	11.7%

### **Analytical Overview**

*Sources of Income* - The District's primary sources of income are from the sale of water services. Other sources of income include interest on investments; membership fees; and collection fees. The District has no taxing power.

*Growth* - During the year 376 new benefit units (i.e., water meters) were sold compared to a total of 287 sold in FY '18. The District sold 684,664,517 gallons of water, which represents an approximate decrease of 5.0 percent when compared to FY '18 and was likely a result of more mild weather in FY '19. The increase in last years benefit unit sales is likely the result of a stronger housing market compared to the previous year.

### **Statements of Net Position:**

*Total Net Assets* - The *Statement of Net Assets* shows that the District's total net assets actually *increased* by \$2,689,801 when compared with FY '18. This *increase* represents growth in our total net assets. Although current assets (i.e., cash) *increased* by \$14,199, the District's fixed assets (i.e., land, equipment and infrastructure) actually *increased* by \$2,531,847 and the District's investments *increased* by \$900,000.

On the Statement of Net Position we see that the District *improved* its position with regard to total (i.e., current and long term) liabilities by *decreasing* there value by \$471,184 when compared to FY '18. This *decrease* occurred primarily in the category of *long term liabilities*. Total equity *increased* by approximately \$2,689,801.

Statement of Revenues, Expenditures and Changes in Fund Net Position:

Reviewing the *Statement of Revenues, Expenditures and Changes in Fund Net Position* we can see that the District's change in net assets was \$2,689,801. This compared favorably to the net change in net assets of \$1,575,314 experienced in FY '18.

*Revenues* – The District's total operating revenues for FY '19 were \$5,568,269. This represents an *increase* of approximately \$275,514 or 5.2 percent over FY '18. Approximately 61 percent of our revenues (i.e., \$5,209,862) were derived from sale of water services.

Approximately 4 percent of revenues (\$376,800) came from membership fees. Revenues from these items were *up* 3 percent over FY '18.

*Expenses* - The District's total operating expenses were \$5,796,492. Excluding depreciation and amortization the total operating expenses are reduced to \$4,538,757. This represents an approximate *increase* of \$222,817 or 5.2 percent over FY '18.

Statement of Cash Flows:

As shown in the *Statement of Cash Flows* the District had a net *increase* in cash at the end of the year of \$91,054.

Annual Budget

As required by the District's By-Laws, an Annual Budget was prepared by the District Manager for FY '19. The basis for the budget included a thorough examination of the actual results from the last several years. The budget also included certain anticipated expenses that were related to budgeted capital projects. The FY '19 Annual Budget was reviewed and approved by the Board during the Board meeting held on February 11, 2019.

Debt Administration:

The remaining balance for all promissory notes (i.e., loans) at the beginning of the year was \$17,275,652. No new loans were acquired during 2019 and all scheduled loan and interest payments through December 31, 2019 were made on time. The District reduced its principal on outstanding loans by \$471,704. The balance remaining on all outstanding loans is \$16,803,948. The sinking fund for the District's loans is fully funded.



*Highlights of Other Critical Information:*

- In Fiscal Year 2019 the District has continued to meet the new and more stringent water quality regulations. This includes monthly testing for Total Organic Carbons (TOC's) and quarterly testing for Trihalomethanes (THM's) and Haloacetic Acids (HAA's). We also successfully completed first phase of the Unregulated Contaminant Monitoring Regulations (UCMR4). The District is pleased to report that our water quality complied with all the regulations.
- Caney River Raw Water Supply Project
  - Legal action filed by the Contractor against the District is in progress.
- Water Treatment Plant Expansion Project
  - Legal action by Design Engineer of WTP Expansion Project continued against the District in 2019.
- Water Resources Master Planning – We continue work on a new master plan for the District.
- Oklahoma Department of Transportation – The District worked with ODOT on the following projects:
  - Highway 20 between Highway 75 and Mingo – The District completed design and began construction on approximately 3 miles of 12-inch water line.
- Owasso Utility Relocation Projects – The District shared cost with the City of Owasso on various projects including:
  - 137<sup>th</sup> Access Road (North of Glover Owasso) – The project was completed in 2019 and included approximately 500 feet of new 12-inch water line.
- Washington County Utility Relocation Projects – The District worked with Washington County on the following water line relocation plans:
  - Bevan Creek (Memorial & 226<sup>th</sup> Str. N) was completed in 2019
  - Green Lake (approximately one-half mile east of Garnett on 196<sup>th</sup> Str. N.) was started in 2019.
- Tulsa County Utility Relocation Projects
  - Horse Pen Creek - The District worked with Tulsa County on the development of water line relocation plans for water lines along old Highway 169 south of 166<sup>th</sup> Str. N.
- 24-Inch Water Line Extension – Planning efforts got underway for the extension of approximately two and a half (2.5) miles of new 24-inch water line beginning at the North WTP and extending south.

*Conclusions* – The District as a whole has a better financial position than a year ago. The value of our total liabilities decreased while the value of our total equity increased. Our total debt service was decreased by \$471,704. We ended the year with more cash and investments (i.e., \$991,054) than we started with.

*Looking Forward* – As we look forward to Fiscal Year 2020 we anticipate our growth to be the same or slightly lower than that which was experienced in FY '19. We also anticipate progress on the following major capital projects:

- Water Treatment Plant Expansion Project: We anticipate progress on the lawsuit for this project.
- Caney River Raw Water Supply Project: We anticipate progress on the lawsuit for this project.
- Water Quality Regulations – We will continue sampling and testing for S.O.C. as mandated by the EPA. We will also complete sampling and testing for the final two (2) phases of UCMR4.
- Water Resources Master Plan – We anticipate completing the master plan in 2020. This master plan will identify future capital needs with emphasis on priority.
- Booster Pump Station – The District will acquire property, develop plans and construct a new booster pump station.
- Future Water Lines – The District is planning:
  - To develop plans for the construction of new 24-inch water line.
  - The District will work with the ODOT on the following:
    - To complete construction of the water line relocations for approximately three (3) miles of water line along State Highway 20 between US Highway 75 and Mingo.
    - To complete relocation plans and construction for relocation of certain water lines along Highway 11.
  - The District will work with Washington County on the following:
    - To complete the relocation of water lines at Green Lake.
    - To design water line relocations at Wolfe Creek on Garnett (113<sup>th</sup> East Ave) just north of 186<sup>th</sup> Street North.
  - The District will work with Tulsa County to prepare water line relocation plans for the following:
    - Along 86<sup>th</sup> Street North in areas East and West of Sheridan.
    - At Horse Pen Creek along old Highway 169 south of 166<sup>th</sup> Street North.
    - Along 126<sup>th</sup> Street North between Sheridan and Yale.
  - The District will continue to work with Owasso on the following:
    - Water line relocations in the intersection of 116<sup>th</sup> Street North and 129<sup>th</sup> East Avenue.
    - Water line relocations in the intersection of 106<sup>th</sup> Street North and 145<sup>th</sup> East Avenue.
    - Water line relocations along 116<sup>th</sup> Street North between 129<sup>th</sup> East Avenue and Garnett.
    - Water line relocations along 116<sup>th</sup> Street North in areas East of 129<sup>th</sup> East Avenue to Highway 169.
    - Water line relocations in the intersection of 106<sup>th</sup> and 129<sup>th</sup> East Avenue.
    - Water line relocations along 96<sup>th</sup> Street North between Garnett and 129<sup>th</sup> East Avenue.

**RURAL WATER DISTRICT NO. 3  
WASHINGTON COUNTY, OKLAHOMA**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	<u>2019</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 1,055,487
Restricted cash (Note 1.E)	802,068
Investments	4,900,000
Accounts receivable	461,087
Accrued interest receivable	3,129
Inventory	256,490
Prepaid insurance	62,568
Total current assets	<u>7,540,829</u>
Noncurrent assets:	
Capital assets:	
Building & land	454,101
Machinery & tools	385,759
Automotive equipment	444,366
Furniture & fixtures	116,212
Lab equipment	40,706
Water treatment & distribution system	50,561,778
Less accumulated depreciation	<u>(16,827,664)</u>
Total capital assets	<u>35,175,258</u>
Total Assets	<u><u>\$ 42,716,087</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 48,939
Accrued interest payable	138,401
Current portion of long-term debt (Note 2)	492,613
Total current liabilities	<u>679,953</u>
Noncurrent liabilities:	
Notes payable (Note 2)	16,803,948
Less: current portion	<u>(492,613)</u>
Total noncurrent liabilities	<u>16,311,335</u>
Total Liabilities	<u><u>16,991,288</u></u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	18,371,310
Restricted for Debt Service	274,492
Restricted for Capital and Other	527,576
Unrestricted	<u>6,551,421</u>
Total Net Position	<u><u>\$ 25,724,799</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 3  
WASHINGTON COUNTY, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>2019</u>
Operating revenues:	
Water sales (net of adjustments)	\$ 5,209,862
Penalties, fees, service charges and miscellaneous	<u>358,407</u>
Total operating revenues	<u>5,568,269</u>
Operating expenses:	
Salaries, wages & contract labor	1,011,440
Payroll taxes	79,276
Employee benefits	51,626
Utilities	350,605
Telephone	18,619
Equipment expense	200,318
Depreciation	1,257,735
Interest expense	643,752
Vehicle expense	34,056
Building, vehicle & other insurance	355,642
Plant repair & maintenance	49,536
Chemicals	825,864
Travel, entertainment & miscellaneous	71,937
Licenses & fees	42,865
Plant supplies	429,107
Water purchased	5,571
Office expense & postage	81,342
Professional fees	<u>287,201</u>
Total operating expenses	<u>5,796,492</u>
Net operating income	<u>(228,223)</u>
Nonoperating revenue (expense)	
New benefit units	376,800
Contribution of developments	2,462,746
Interest income	<u>78,478</u>
Total nonoperating revenue (expense)	<u>2,918,024</u>
Change in net position	2,689,801
Net position beginning of year	<u>23,034,998</u>
Net position end of year	<u><u>\$ 25,724,799</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 3  
WASHINGTON COUNTY, OKLAHOMA**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019**

	2019
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 5,631,389
Payments to suppliers	(3,386,061)
Payments to employees	(1,142,342)
Net cash provided (used) by operating activities	<u>1,102,986</u>
<b>Cash flows from noncapital financing activities:</b>	
Transfers from (to) investments	(900,000)
Net cash provided (used) by noncapital financing activities	<u>(900,000)</u>
<b>Cash flows from capital and related financing activities:</b>	
New benefit units	376,800
Purchase of capital assets (net of non-cash contributions)	(95,506)
Principal paid on capital debt	(471,704)
Net cash provided (used) by capital and related financing activities	<u>(190,410)</u>
<b>Cash flows from investing activities:</b>	
Interest income	<u>78,478</u>
Net increase (decrease) in cash and cash equivalents	91,054
Cash balance beginning of year (adjusted to include restricted cash)	<u>1,766,501</u>
Cash balance end of year (non-restricted & restricted)	<u><u>\$ 1,857,555</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (228,223)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	1,257,735
Change in assets and liabilities:	
Accounts receivable	63,120
Inventory	9,834
Accounts payable	520
Net cash provided by operating activities	<u><u>\$ 1,102,986</u></u>
<b>Additional Cash Flow Information</b>	
Interest Paid	\$ 643,752
Non-Cash Fixed Asset Additions	
Total additions to Fixed Assets	2,558,252
Less Fixed Assets Purchased	<u>(95,506)</u>
Contributions in Aid of Construction	\$ 2,462,746

The accompanying notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 3**  
**Washington County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Washington County Rural Water District Number 3 (the District) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.) The accounting and reporting framework and the more significant accounting policies established by GAAP and used by the District are discussed below.

**A. REPORTING ENTITY**

The District was organized in 1965, under Title 82, O.S. Supp. 1972, Sections 1324.1 to 1324.26 for the purpose of providing a water works system including all physical facilities, improvements and services necessary for executing that purpose, in Washington, Osage, Tulsa and Rogers counties. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 10,000 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$ 1,000 subscription fee (\$ 750 prior to May 2005), which is non-refundable, and entitles the holder to one line from the District's water system. The Board of Directors consist of 7 members serving 3 year terms. The vacant Board seats are filled at the annual meeting in April, and following, the Board of Directors meet and elect a Chairman, Vice-Chairman, Secretary and Treasurer.

**B. BASIS OF ACCOUNTING**

The District's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

**C. INVENTORY**

The District utilizes a perpetual inventory system for supplies. The supplies on hand at year end are valued at the lower of cost or market, on a first-in, first-out basis, and included in the December 31, 2019, financial statements at \$ 256,490.

#### D. FIXED ASSETS

All fixed assets are recorded at their original acquisition cost. Depreciation is provided in the financial statements utilizing the following estimated useful lives:

	<u>Years</u>
Office Building	40
Water Plant & System	40
Furniture, Fixtures & Equipment	10
Machinery & Tools	10-15
Automotive	5
Office Equipment	5-15

A summary of the fixed asset accounts for the year ended December 31, 2019, is as follows:

	<b>Balance</b>				<b>Balance</b>
	<b>December 31, 2018</b>	<b>Additions</b>	<b>Disposals</b>		<b>December 31, 2019</b>
<b>Building &amp; Land</b>	\$ 446,501	\$ 7,600	\$ -	\$	454,101
<b>Machinery &amp; Tools</b>	376,759	9,000	-		385,759
<b>Automotive</b>	434,561	9,805	-		444,366
<b>Furniture, Fixtures &amp; Equipment</b>	116,212	-	-		116,212
<b>Lab Equipment</b>	40,706	-	-		40,706
<b>Water Treatment &amp; Dist System</b>	48,029,931	2,531,847	-		50,561,778
	49,444,670	2,558,252	-		52,002,922
<b>Less Accumulated Depreciation</b>	(15,569,929)	(1,257,735)	-		(16,827,664)
<b>Net Property and Equipment</b>	<u>\$ 33,874,741</u>	<u>\$ 1,300,517</u>	<u>\$ -</u>	<u>\$</u>	<u>35,175,258</u>

#### E. DEPOSITS AND INVESTMENTS

Cash and investments include all deposits held by financial institutions - money market accounts, savings accounts and certificates of deposit. At year-end, the bank balance of the District's deposits totaled \$ 6,757,055. All funds were either covered by federal depository insurance or collateralized by securities pledged to the District by various depository banks.

*Investment Interest Rate Risk* – the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Concentration of Credit Risk* – The District places no limit on the amount it may invest in any one issuer. Since the District has all investments in certificates of deposit, there is no concentration of investment credit risk exposure.

The deposits and investments held at December 31, 2019, are as follows:

Acct Name	Balance 12/31/19	Restricted	Unrestricted
Cash on Hand	\$ 500	-	\$ 500
<b>RCB Bank</b>			
Cash in Bank Operating	1,054,987	-	1,054,987
RECD Reserve	46,681	46,681	-
RECD Reserve #2	21,207	21,207	-
RUS Reserve - CRP	241,575	241,575	-
North Treatment Plant Project Fund	154	154	-
North Treatment Plant Construction	134,875	134,875	-
Interest Reserve	150,972	150,972	-
	<u>1,650,451</u>	<u>595,464</u>	<u>1,054,987</u>
Certificates of Deposits (summarized)	<u>3,750,000</u>	<u>-</u>	<u>3,750,000</u>
<b>American Bank of Oklahoma</b>			
Certificates of Deposits (summarized)	<u>900,000</u>	<u>-</u>	<u>900,000</u>
<b>VNB</b>			
Certificates of Deposits	<u>250,000</u>	<u>-</u>	<u>250,000</u>
<b>Bank First</b>			
North Treatment Plant Debt Reserve	<u>206,604</u>	<u>206,604</u>	<u>-</u>
<b>TOTAL CASH and DEPOSITS</b>	1,857,555	802,068	1,055,487
<b>TOTAL CERTIFICATE of DEPOSITS</b>	4,900,000	-	4,900,000
<b>Totals</b>	<u>\$ 6,757,555</u>	<u>802,068</u>	<u>\$ 5,955,487</u>

## F. STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, and cash on hand, as cash or cash equivalents.



## **G. COMPENSATED ABSENCES**

Employees must complete one (1) year of continuous service before earning two (2) weeks of vacation time per calendar year. Employees who have completed two (2) years through five (5) years of continuous service will earn three (3) weeks of vacation time per calendar year. Beginning in the sixth (6) year of continuous service, employees will earn four (4) weeks of vacation time per calendar year. Beginning in the twentieth (20) year of continuous service, employees will earn five (5) weeks of vacation time per calendar year. Vacation time is computed on a calendar year basis.

Vacation pay is vested, and thus paid upon retirement or separation (with two weeks' notice.) Vacation time is to be taken during the calendar year. Employees are required to utilize at least one-half of earned vacation time. The remaining vacation time will be paid at year end, and does not carry over to the next year without Board approval. The vacation accrued at December 31, 2019, was paid the last week of 2019.

All full-time employees are eligible for sick leave, after six months service, accrued at four hours per month (6 days per year.) Employees may accrue a maximum of 120 days of sick leave. Sick leave is not vested, and is lost upon separation.

## **H. ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2019 represent charges for services provided to customers. The District utilizes the direct charge-off method of recognition of bad debts. Uncollectible accounts are an insignificant amount each year, thus there is no reserve for uncollectible accounts at December 31, 2019.

## **I. INVESTMENTS**

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximated fair value.

## **J. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

## **K. CASH AND CASH EQUIVALENTS**

For the purpose of financial reporting, "cash and cash equivalents" include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

## **L. EQUITY CLASSIFICATION**

a) Net position is displayed in three components:

*Invested in capital assets, net of related debt* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any

bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

*b) Restricted fund balance:*

Consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.

*c) Unrestricted fund balance:*

All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

## **M. BUDGETARY DATA**

In accordance with the by-laws of the District, the Board of Directors prepare a budget, under the accrual basis of accounting.

## **NOTE 2: LONG-TERM DEBT**

### **A. RURAL DEVELOPMENT LOANS**

During a previous year, the District entered into a loan agreement with the Rural Utilities Service division of the USDA for \$ 4,800,000. The loan bears interest at 3.75 %, and requires monthly payments of \$ 19,344, beginning December 17, 2010, through November 17, 2050 (forty years.) The proceeds of the loan was utilized to acquire and construct water system improvements, namely the Caney River project. The total cost of the project was approximately \$ 6,300,000, thus the District provided the balance of the funds for the project (\$ 1,500,000.) The total balance outstanding under the loan as of December 31, 2019, was \$ 4,059,189.

This loan requires that a reserve be established in the amount of \$ 1,934.40 per month, until a balance of \$ 232,128 is maintained. During the year ended December 31, 2011, the District funded the reserve in full. The balance in the reserve account at December 31, 2019, was \$ 206,604.

During the year ended December 31, 2000, the District entered into two separate loan agreements with the Rural Economic and Community Development division of the USDA for \$ 724,200 and \$329,000. The loans bear interest at 5.5 %, and require monthly payments of \$ 3,737 and \$ 1,698, respectively, beginning November 4, 2000, through October 4, 2040. The proceeds of the loans were utilized to renovate and upgrade the existing north water treatment plant. The total cost of the project was approximately \$ 1,746,000. Thus, the District provided the balance of the funds for the project (approximately \$ 692,000.) The total balance outstanding under the loans as of December 31, 2019, was \$ 574,517.

Each of the loans require that a reserve be established in the amount of \$ 373.70 per month for the \$724,200 loan, until a balance of \$ 44,844 is maintained, and in the amount of \$ 169.80 per month for the \$ 329,000 loan, until a balance of \$ 20,376 is maintained. As of December 31, 2019, the balances in the reserve accounts was \$ 46,681 and \$ 21,207.

## **B. OKLAHOMA WATER RESOURCES BOARD LOAN**

On December 14, 2009, the District entered into a Drinking Water SRF (State Revolving Fund) promissory note, and a Trust Indenture, with the Oklahoma Water Resources Board, for \$ 17,394,645, to fund the expansion of the north water treatment plant. The total cost of the project was estimated at \$ 17,832,782. Part of the funding (\$ 2,000,000) was from a grant from the EPA (Environmental Protection Agency) to the OWRB, under the Clean Water State Revolving Fund – American Recovery and Reinvestment Act of 2009 (ARRA.) In accordance with the agreement with the Oklahoma Water Resources Board, the \$ 2,000,000 funded through the American Recovery and Reinvestment Act of 2009, was forgiven, pending compliance with all ARRA regulations.

The loan requires monthly payments into a debt service fund, to be held by a trustee, who will make semi-annual payments of principal and interest to the Oklahoma Water Resources Board on March 15 and September 15, beginning no later than March 15, 2012. The loan carries interest at 2.99 %, and an administrative fee of 0.5 %, and will be payable in 360 months from the date of completion. Interest and the administrative fee began March 15, 2010. The balance outstanding under the loan at December 31, 2019, was \$ 12,169,531.

The loan is secured by the revenue derived from the operation of the system, on parity with the security interest securing the District's existing debt. OWRB has also taken a security interest in virtually all of the District's assets.

The District's schedule of rates or charges for the services of the system shall be sufficient to provide funds which, together with other revenues pledged under the loan, will provide net revenues available for debt service equal to at least 125 % of the maximum annual amount required for debt service on all obligations of the District. The District was in compliance with this requirement during the year ending December 31, 2019.

## **C. CHANGES IN LONG-TERM DEBT**

The following is a summary of changes in Long-term debt for the year ended December 31, 2019.

Type of Debt	Balance 12/31/18	Additions	Reductions	Balance 12/31/19	Amount Due Within One Year
Business Type Activities:					
RECD Loan 724,200	\$ 519,755	-	(16,675)	503,080	\$17,616.00
RECD Loan 329,000	87,405	-	(15,968)	71,437	16,868
RUS Loan	4,138,189	-	(78,288)	4,059,901	81,276
OWRB Loan	12,530,303	-	(360,773)	12,169,530	376,853
Total Business Type Activities:	<u>\$ 17,275,652</u>	<u>-</u>	<u>(471,704)</u>	<u>16,803,948</u>	<u>\$ 492,613</u>

#### D. DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of December 31, 2019, is as follows:

Year Ended June 30	Principal	Interest	Total
2020	\$ 492,613	\$ 605,668	\$ 1,098,280
2021	511,023	587,257	1,098,280
2022	530,136	568,145	1,098,280
2023	548,010	548,304	1,096,314
2024	549,569	528,335	1,077,904
2025-2029	3,037,500	2,323,155	5,360,655
2030-2034	3,773,822	1,715,001	5,488,823
2035-2039	4,284,768	992,103	5,276,871
2040-2044	2,375,829	295,051	2,670,880
2045-2049	700,678	51,798	752,476
Totals	<u>\$ 16,803,948</u>	<u>8,214,817</u>	<u>\$ 25,018,765</u>

#### NOTE 3: WATER PURCHASE CONTRACT

The District purchases water from Lake Oologah (an impoundment of the Verdigris River) the Skiatook Reservoir (an impoundment of Hominy Creek) and the City of Tulsa. In connection therewith, the District has contracts with the United States Corps of Engineers and the City of Tulsa, and permits to appropriate stream water, from the Verdigris River, Hominy Creek and the Caney River, with the Oklahoma Water Resources Board.

#### NOTE 4: INVESTMENTS

Investments as of December 31, 2019, are summarized as follows:

	Fair Cost	Carrying Value	Value
Unrestricted:			
Certificates of Deposit	<u>\$ 4,900,000</u>	<u>4,900,000</u>	<u>4,900,000</u>
	<u>\$ 4,900,000</u>	<u>4,900,000</u>	<u>4,900,000</u>

#### NOTE 5: FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board Statement No. 72 establishes a framework for measuring fair value. That Framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GASB Stmt. No 72 are described below:

Level 1 Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 Valuations based on quoted prices in markets that are not active or on valuation models for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuation based on inputs that are unobservable and significant to the overall fair value measurement. Level 3 investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for significant assets and liabilities measured at fair value at December 31, 2019:

*Money market funds and certificates of deposits:* Consist of cash deposits with financial institutions and money market funds. The District uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

*Investments:* Primarily consist of domestic equity, international equity, and fixed income funds. The District uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

*Other assets:* Primarily consists of accounts receivable, and inventory. The assets are valued based upon the expected collectible amount, lower of cost or market on a first-in, first-out method, and other unobservable inputs or Level 3 measurements.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth by level, within the fair value hierarchy, the District's assets and liabilities at fair value as of:

Assets at Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of Deposit	\$ 4,900,000	\$ -	\$ -	\$ 4,900,000
<b>Total</b>	4,900,000	-	-	4,900,000
Other Assets:				
Accounts Receivable	-	-	464,216	464,216
Inventory	-	-	256,490	256,490
<b>Total</b>	-	-	720,706	720,706
<b>Total Fair Value</b>	<u>\$ 4,900,000</u>	<u>\$ -</u>	<u>\$ 720,706</u>	<u>\$ 5,620,706</u>

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets and liabilities represent only a portion of the risk to market fluctuations in the balance sheet.

#### **NOTE 6: RETIREMENT PLAN**

The District participates in a governmental Section 457 salary reduction plan. The plan is managed by Pension Solutions. All full time employees are eligible to participate. The District contributes 4 % of each employee's gross salary, monthly, to the plan. Employees are eligible to contribute a percentage of their compensation up to a maximum amount allowed by the plan, and if they contribute at least 2 %, then the District matches that up to 2 %. All District contributions become fully vested after 1 year of service.

#### **NOTE 7: LITIGATION**

The District is a party to various legal proceedings that normally occur in the course of operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

#### **NOTE 8: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 7, 2020, which is the date the financial statements were available to be issued.

In March 2020, the State of Oklahoma and the CDC issued guidelines due to the Covid-19 Pandemic. This resulted in a massive disruption in daily business and the overall economy as nonessential businesses were advised to close and hundreds of employees were laid off their jobs. The impact of the shutdown to the economy is immeasurable at this time. However, as of the date of issuance of this report there have been no difficulties in continuing the operations of services for the District.

This information is provided for informational purposes only and does not affect the opinion of the audit report as of December 31, 2019.

**RURAL WATER DISTRICT NO. 3  
WASHINGTON COUNTY, OKLAHOMA**

**BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2019**

- UNAUDITED -

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
<b>Beginning Budgetary Balance</b>	\$ 4,041,208	\$ 4,041,208	\$ 4,333,134	\$ 291,926
<b>Operating Revenues</b>				
Water sales	5,200,000	5,200,000	5,209,862	9,862
Memberships	300,000	300,000	376,800	76,800
Penalties, fees, service charges & misc	260,050	260,050	358,407	98,357
Total operating revenues	5,760,050	5,760,050	5,945,069	185,019
<b>Operating Expenses</b>				
Salaries	1,068,000	1,068,000	997,371	70,629
Contract labor	23,000	23,000	14,069	8,931
Payroll taxes	87,000	87,000	79,276	7,724
Retirement	54,000	54,000	51,626	2,374
Automobile	60,000	60,000	34,056	25,944
Equipment expense	20,000	20,000	200,318	(180,318)
Chemicals	920,000	920,000	825,864	94,136
Subscriptions / License / Fees	50,000	50,000	42,865	7,135
Education	10,000	10,000	7,827	2,173
Supplies	520,000	520,000	229,328	290,672
Office expense	65,000	65,000	45,811	19,189
Postage	48,000	48,000	35,531	12,469
Professional fees	188,000	188,000	287,201	(99,201)
Line Extensions	350,000	350,000	199,779	150,221
Repair & maintenance	150,000	150,000	68,573	81,427
Telephone	18,000	18,000	18,619	(619)
Utilities	390,000	390,000	350,605	39,395
Travel	11,000	11,000	8,242	2,758
Uniforms	3,500	3,500	4,527	(1,027)
Water Purchased	10,000	10,000	5,571	4,429
Insurance	340,000	340,000	355,642	(15,642)
Taxes	50	50	50	-
Refunds	17,000	17,000	32,254	(15,254)
Total operating expenses	4,402,550	4,402,550	3,895,005	507,545
<b>Non-operating (income) expenses:</b>				
Caney River project	-	-	-	-
Caney River loan payments	232,128	232,128	232,128	-
N. Plant loan payments	800,932	800,932	800,932	-
FmHA loan payments	65,220	65,220	65,220	-
N. Plant upgrade	-	-	-	-
Miscellaneous income	-	-	-	-
Interest income	(25,000)	(25,000)	(78,478)	53,478
Total non-operating (income) expenses	1,073,280	1,073,280	1,019,802	53,478
<b>Total Expenses</b>	5,475,830	5,475,830	4,914,807	561,023
<b>Ending Budgetary Balance</b>	\$ 4,325,428	\$ 4,325,428	\$ 5,363,396	\$ 1,037,968

**RURAL WATER DISTRICT NO. 3**  
**Washington County, Oklahoma**

**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended December 31, 2019**

Budgetary Information

In accordance with the by-laws of the District, the Board of Directors shall prepare an estimated budget for the coming year.

Basis of Accounting

The budget is prepared on the same accrual basis of accounting as applied to the basic financial statements. Revenues and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.



**MICHAEL W. GREEN**  
*Certified Public Accountant*  
827 W Locust Street  
Stilwell, Ok. 74960  
(918) 696-6298

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Rural Water District No. 3  
Washington County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Washington County Rural Water District No. 3 as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Washington County Rural Water District No. 3's basic financial statements and have issued my report thereon dated May 7, 2020.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Washington County Rural Water District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington County Rural Water District No. 3's internal control. Accordingly, I do not express an opinion on the effectiveness of Washington County Rural Water District No. 3's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

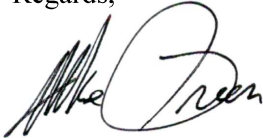
## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Washington County Rural Water District No. 3's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read "Michael Green", with a stylized flourish at the end.

Michael Green, CPA  
Stilwell, Oklahoma

May 7, 2020